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Guatemala

Sugar

Annual

2006

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Report Highlights:

Sugar production is expected to continue growing steadily at 2% per year, as more area is planted. A new warehouse at Puerto Quetzal has increased Guatemala's storage capacity to 64,000 MT of bulk sugar. China has shot up to become a major export market. The U.S. quota was increased from 50,546 MT in FY 2005 to 86,242 MT in FY 2006. Guatemala will have a preferential quota (0% tariff) of 64,000 MT with Taiwan, as part of a new bilateral free trade agreement.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
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Executive Summary

Guatemala's sugar industry is performing steadily with some technical improvements in cane and sugar production expected. Neither policy nor supplies are expected to show any significant change in the foreseeable future. Production has grown slightly in proportion to increases in planted area, which in turn are related to increases in international prices. In MY 2007 area planted is forecast to reach 200,000 hectares. Cane yields are expected to remain essentially unchanged.

Local demand increased 14% from MY 2004 to MY 2005 possibly due to improvements in the economy following strengthening in international coffee prices. Consumption is expected to grow at 4-5% per year, keeping pace with population growth.

Trade has shown considerable changes, as China has established itself as a major export market, together with the U.S.

Guatemala exports around 60% of its total production and is considered the world's fifth largest exporter and the second largest in Latin America, accounting for around 4% of net world exports. In CY 2005 Guatemala exported 1,569,251 MT, a 21% increase over the previous year. In CY 2006 exports are expected to increase to 1,883,100 MT due to higher production. The major destinations will be China, Korea, U.S., Canada, and Taiwan.

Production

PSD Table						
Country	Guatemala					
Commodity	Centrifugal Sugar					
	(1000 MT)					
	2005 Estimate		2006 Estimate		2007 Estimate	
	USDA	Post	USDA	Post	USDA	Post
	Official	Estimate	Official	Estimate	Official	Estimate
	[Old]	[New]	[Old]	[New]	[Old]	[New]
Market Year Begin	Nov-04		Nov-05		Nov-06	
Beginning Stocks	188	212	223	159	0	101
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1982	2103	2000	2145	0	2209
TOTAL Sugar Production	1982	2103	2000	2145	0	2209
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	0	0	0	0	0	0
TOTAL Imports	10	0	0	0	0	0
TOTAL SUPPLY	2170	2315	2223	2304	0	2310
Raw Exports	1225	1263	1181	1315	0	1341
Refined Exp.(Raw Val)	210	234	210	217	0	223
TOTAL EXPORTS	1386	1497	1391	1527	0	1564
Human Dom. Consumption	561	650	572	676	0	682
Other Disappearance	0	0	0	0	0	0
Total Disappearance	561	650	572	676	0	682
Ending Stocks	223	159	260	101	0	64
TOTAL DISTRIBUTION	2170	2306	2223	2304	0	2310

PSD Table						
Country	Guatemala					
Commodity	Sugar Cane for Centrifugal					
	(1000 HA)(1000 MT)					
	2005 Estimate		2006 Estimate		2007 Forecast	
	USDA	Post	USDA	Post	USDA	Post
	Official	Estimate	Official	Estimate	Official	Estimate
	[Old]	[New]	[Old]	[New]	[Old]	[New]
Market Year Begin	Nov-04		Nov-05		Nov-06	
Area Planted	187	194	194	197	0	200
Area Harvested	187	194	194	197	0	200
Yield (MT/HA)	95.1	91.7	90.7	90.5	0	90.5
Production	17781	17781	17587	17820	0	18106
TOTAL SUPPLY	17781	17781	17587	17820	0	18106
Utilization for Sugar	17281	17281	17087	17320	0	17556
Utilized for Alcohol	500	500	500	500	0	550
TOTAL UTILIZATION	17781	17781	17587	17820	0	18106

Guatemala's planted sugarcane area for MY 2006 is forecast at 197,000 hectares. Usually in Guatemala, the increase or decrease of area planted directly responds to sugarcane contracts offered by sugar mills, the price formula for sugarcane and the relative profitability of crops like bananas and palm. In this case sugarcane planted area is expected to rise by about 2% thanks to the slight recovery of international prices.

Hurricane Stan of October 2005 reduced MY 2006 production by only 2% (close to 40,000 MT) since the crop was mature enough and strong enough to resist storm damage; harvest was about to start. If the storm had hit young plantations, the impact would have been devastating. For the MY 2007 crop, sugarcane yields and sugar recovery rates are expected to remain steady at the MY 2006 levels. Eventually, yields and production will largely depend on climatic conditions. One fifth of the planted area is renewed every year to lessen risks, as the sugar cane is a 5-year crop.

Average sugarcane yields and sugar recovery rates are summarized below:

YIELDS/RECOVERY RATES	2003/04	2004/05	2005/06
Sugarcane (MT/Ha)	91.6	91.7	90.5
Sugar (Kg/MT)	111	113	115

The Guatemalan Center for Sugarcane Research (CENGICAÑA) keeps supporting the industry with research and technical assistance. Their objective is to improve and increase sugarcane and by-products production and yields, by generating, validating and transferring quality technology for the profitable and sustainable development of the industry. Their main goal is to increase sugar yields and to improve varieties through research programs. CENGICAÑA's assistance has been very valuable to the sugar industry in keeping yields at acceptable levels through poor weather conditions. They are permanently developing new varieties that may improve next year's harvest. Currently, the most commonly planted sugar cane variety is CP722086, followed by 68P23, CP781312, and CP731547. According to officials at CENGICAÑA the total potential area that could be planted to sugarcane is 350,000 hectares, which could yield up to 30 million MT of sugarcane. However it is unlikely that all this land will be used for cane.

There are 15 sugar mills in the country. During 2004, two sugar mills closed. Combined milling capacity for MY 2006 is around 125,000 MT per day, down from last year's capacity of 129,000 MT per day. Sugar production for 2005-06 is expected to reach about 2,145,000 MT due to increased harvest area. Total sugar production for MY 2007 is forecast to slightly increase due to additional planted area of 3,000 hectares.

There is only one sugar mill that currently produces alcohol. This mill produces around 500 MT of alcohol. Most of the alcohol is exported to the U.S. and Mexico. Other mills are adding alcohol refineries, and the industry hopes to increase ethanol production for use as motor fuel. In addition, six sugar mills are generating electricity, utilizing the sugarcane bagasse. They are currently generating approximately 148 megawatts of electricity, which accounts for 20% of total electricity produced in the country.

There are two methods of irrigation used in Guatemala, gravity flow and aspersion. Approximately 40 percent of Guatemalan sugarcane is irrigated. The sugar industry generates around 60,000 full-time jobs, which support around 250,000 people. In addition, the sugar industry generates employment indirectly for another 300,000 people.

The average cost of production for 2005 follows:

DESCRIPTION	VALUE \$/HA (Q7.65/\$1)	PERCENTAGE
Land preparation	114.75	8.29
Planting	394.93	28.53
Weed control out of cane plantation	6.87	.50
Weed control inside of cane plantation	94.67	6.84
Fertilization	74.59	5.39

DESCRIPTION	VALUE \$/HA (Q7.65/\$1)	PERCENTAGE
Irrigation	173.08	12.50
Maturing agents application	20.08	1.45
Experiments	7.05	0.51
Pest control	15.00	1.04
Harvesting	483.86	34.96
TOTAL	1384.88	100.00

The local sugar association "Asociacion de Azucareros de Guatemala" (ASAZGUA) through a price formula set sometime before the harvest season starts, determines the price for sugarcane. The price is based on a minimum of 87.5 kilos of sugar per metric ton of cane. For sugar content above the basis, the producer receives a proportional adjustment.

Local sugar prices for 2006 have increased by 5%. The Government did not approve the increase and is considering importing sugar from Brazil, which is not profitable since local prices are very competitive. The industry does not want to hold the line on local sugar prices. This measure affects the independent sugarcane grower, since sugarcane prices are determined by a formula based in part on the current domestic sugar price. Due to this situation, independent sugarcane growers are trying to discuss with sugar millers and government officials the possibility of changing the formula so that domestic wholesale price movements do not affect them; they would also consider receiving some type of subsidy. Presently, the prices are as follows:

At Mill	Wholesaler	Retailer
\$0.20/lbs	\$0.23/lbs	\$0.26/lbs

Consumption

In 2005-06 local consumption is expected to increase slightly to 656,736 MT due to a growth in population. Per capita consumption of sugar is 48 Kg. MY 2005 consumption increased significantly from the previous year, most likely due to a reduction in rural poverty as international coffee prices rebounded. Local consumption has increased 14% in the last year, experiencing major increases from May to July. May sugar consumption in 2004 was 46,103 MT and in 2005 was 56,334, accounting for an 18% increase.

Distribuidora Azucarera de Guatemala S.A. (DAZGUA) maintains a legal oligopoly on the domestic wholesale and retail markets, established by decree in 1997. DAZGUA markets and distributes to retailers through 38 warehouses strategically located throughout the country. Competition from other retailers has forced DAZGUA to come out with new marketing strategies in order to compete with retailers offering lower prices due to lower costs in packaging, transportation, and inaccurate weights.

In Guatemala almost all-wholesale sugar is sold through DAZGUA. There are ways of buying wholesale from mills, but it is very difficult and the amounts are very small. However, in the retail market, anyone can sell.

Alternative sweeteners and other alternative sugar products are not a detrimental or significant factor in total domestic sugar consumption. Sugar confectionery imports and sugar smuggling from Mexico have had some affect on sugar consumption but not to a significant degree. Currently, domestic consumption is split as follows: 28% for industrial and 72% for human. On the industrial side of domestic consumption, the soft drinks industry is the major consumer of sugar. Other major sugar consumers include confectioneries, bakeries, juices, wineries, dairy products, and pharmaceuticals.

Trade

Export Trade Matrix			
Country	Guatemala		
Commodity	Centrifugal Sugar		
Time period	Jan-Dec	Units:	Metric Tons
Exports for:	2004		2005
U.S.	200,500	U.S.	246,997
Others			
South Korea	326,850	South Korea	350,316
Canada	123,905	China	239,396
Taiwan	62,026	Canada	175,723
Malaysia	82,500	Venezuela	96,093
Venezuela	61,993	Indonesia	81,268
Ukraine	65,700	Taiwan	78,132
Mexico	73,783	Malaysia	44,139
Jamaica	29,955	Ukraine	39,216
Chile	21,700	Jamaica	37,001
Bulgaria	19,000	Chile	35,114
Total for Others	867,412	Total for Others	1,176,398
Others not Listed	367,343	Others not Listed	392,853
Grand Total	1,234,755	Grand Total	1,569,251

Guatemala exports around three quarters of total production. Guatemala is considered the fifth largest exporter in the world and the second largest in Latin America. In CY 2005 Guatemala exported 1,569,251 MT, a significant increase over the previous year thanks to the additional area harvested. In CY 2006, Guatemalan exports will respond to additional demand from the U.S. and Taiwan. The total U.S. quota allocation for Guatemala in FY2006 is 86,242 MT, 41% above TRQ assigned the previous year (50,546 MT). The Guatemalan Sugar Association expects that around 84% of total exports will be in raw sugar, a slight increase from the previous year due to an increase in the U.S. re-export market and an increase of raw sugar imports by Canada, which will more than compensate for a decrease in exports to Russia. For the MY 2006 crop, a fair amount of sugar exports are expected to go to the U.S., Canada, Venezuela, Taiwan, and China. The Far East Countries are starting to be considered as the main export markets, together with U.S. Since June 2006, the new bilateral free trade agreement between Guatemala and Taiwan will allow for 64,000 MT of raw sugar to enter free.

Stocks

In November 2006 ending stocks are expected to be as low as 70,000 MT. Domestic stocks are held in warehouses managed by DAZGUA throughout the country. All sugar that is to be exported is held in warehouses managed by EXPOGRANEL, located in Puerto Quetzal. Their warehousing capacity has increased to 64,000 MT of bulk sugar, and 47,000 MT of sugar in sacks of 50 Kg (520,000 sacks). They have a loading capacity of 2,000 MT per hour, comparable to Brazil and Australia.

Policy

Official decree 92-71 established the Sugar Board, which includes representatives from the Ministry of Economy, sugarcane producers, and sugar mills. The Board establishes production goals, sets sugarcane prices, and also allocates Guatemala's production of the U.S. sugar

quota to the different sugar mills. The allocation to each mill is based on past production performance, previous quotas, and milling capacity.

According to the law, all sugar mills have to add vitamin "A" to sugar. The industry claims to invest \$3.5 million a year on vitamin "A".

Presently, Guatemala has no quotas for sugar, and all imports are accessed a tariff of 20%. Furthermore, all imports must fulfill the enrichment law.

Marketing

ASAZGUA launched a new marketing strategy to maintain local sugar consumption, as diet sugar tries to gain new niches. Both by radio and visual media, the sugar industry is promoting its famous "just 16 calories per teaspoon". The industry is very confident on maintaining or even increasing some 4-5% domestic consumption.